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October 1988 Monthly Survey

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Surveys of Consumers

Richard T. Curtin, *Director*

Confidence Traces Sawtooth Pattern at High Level

Index Slips

The Index of Consumer Sentiment was 94.1 in the October 1988 survey, down from 97.3 one month earlier, but above the 89.3 recorded one year earlier. The recent small loss was due to somewhat less favorable personal financial attitudes. Given the record high levels personal financial assessments reached earlier in the year, the October decline is not very troublesome.

Among families with incomes of $30,000 or more, the Index was 103.0 in October, slightly ahead of the 102.8 recorded one month earlier, and above the 99.9 recorded one year earlier.

Personal Finances Zigzag at High Levels

Consumers' assessments of their own financial situation receded in the October 1988 survey from the record levels recorded in the prior two months. Personal finances have been judged very favorably throughout the past several years, tracing a sawtooth path at high levels. The October results show these measures to be near the low side of that high horizontal path, and indicate the continuation of that zigzag trend.

Among all families in the October survey, 42 percent reported that their financial situation had improved during the past year, down from 49 percent one month earlier. Reports of family income increases were less frequent in October than a month earlier (34, down from 40 percent), and reports of income declines were more frequent (18, up from 12 percent). In addition, complaints that recent price increases had reduced living standards rose (15, up from 9 percent).

Financial prospects for the year ahead continued to be viewed favorably by consumers in the October survey, although they have also weakened from the month earlier reading. Among all families in the October 1988 survey, 36 percent expected their financial situation to improve during the year ahead, down from 41 percent in September. Although worsening finances were expected by just 12 percent of all families in the October 1988 survey, it was up from 8 percent in September. Nearly half of all families (48 percent) expected their financial situation to remain unchanged on balance, considering expected changes in both incomes and prices during the year ahead.

Outlook for Economy Remains Upbeat

Good times financially in the economy as a whole during the year ahead were expected by 54 percent of all families in the October 1988 survey, just ahead of the 53 percent recorded one month earlier. Overall, these expectations were the most favorable recorded during the past year.

Expectations for the economy over the longer run were also upbeat, although they have shown a minor decline from the late summer levels. Among all families, 40 percent expected good times financially in the country as a whole over the next five years, just below the August reading of 43 percent, but above the year earlier reading of 36 percent.

The current low level of the national unemployment rate was expected to remain unchanged by 60 percent of all families in the October 1988 survey, up from 52 percent recorded both one month and one year earlier. The proportion of families that expected increases in the unemployment rate fell to 22 percent in October, from

27 percent one month earlier and 29 percent one year earlier.

Concerns with inflation eased somewhat in the October 1988 survey. The annual rate of inflation was expected to average 5.2% in October 1988, down from 5.5% one month earlier. Although this expected inflation rate is still well above the 4.4% recorded one year earlier, it does represents the first sign of easing in these inflationary fears since the start of the summer.
Concerns over rising interest rates also eased in the October 1988 survey, but they still remain at very high levels. Among all families in the October survey 62 percent expected increases in interest rates during the year ahead, down from 67 percent one month earlier and 71 percent two months earlier.

Home Buying Attitudes Weaken: Price and Mortgage Concerns Rise

Attitudes toward buying conditions for homes weakened in the October 1988 survey, largely due to changing perceptions of trends in home prices and mortgage rates. Among all families, 64 percent thought that home buying conditions were favorable in the October survey, down from 70 percent recorded both one month and one year earlier.

Perceptions of home prices were less favorable in the October survey than one month earlier. Among all families, fewer mentioned the availability of low prices (18, down from 21 percent), and families more frequently voiced complaints about high home prices (18, up from 11 percent). Indeed, the October 1988 survey was the first monthly survey in more than three years that families did not more frequently refer to low home prices than mention high prices when asked to explain their views.

In addition, shifting perceptions of mortgage rate trends made housing purchase decisions seem less pressing. Fewer families mentions the appeal of borrowing-in-advance of rising mortgage rates in October than one month earlier (15, down from 21 percent). And even though there were more frequent references to the availability of lower mortgage rates (25, up from 22 percent), these references were offset by increased complaints about high mortgage rates (16, up from 14 percent).

Overall, home buying attitudes are now at their least favorable level in more than two years (except for the depressed November 1987 reading due to the stock market crash). Nonetheless, the current level of home buying attitudes is still more favorable than at any time prior to the current expansion. Thus, while favorable home buying attitudes have clearly receded from their recent cyclical peak, they remain at very high levels. While these results do indicate a slowing in home sales, the slowdown can be expected to be modest.

Conditions Remain Favorable For Household Durable Goods

Favorable attitudes toward buying conditions for furniture, appliances, and home electronic goods remained widespread in the October 1988 survey, largely due to continued favorable perceptions of market prices. Among all families, 73 percent held favorable attitudes towards household durables, just ahead of the 71 percent recorded one month earlier. Although this does represent a decline from the 79 percent recorded at mid year, it nonetheless remains at a very favorable level.

When asked to explain their views of market conditions for household durables, 32 percent mentioned the availability of discounted prices, compared with just 8 percent that complained about high prices. Overall, these data indicate a favorable outlook for sales of these goods during the Christmas season, with consumers placing continued emphasis on the availability of price discounts.

Vehicle Buying Attitudes Remain Stable

Favorable attitudes toward buying conditions for vehicles have remained largely unchanged during the past few months at favorable levels. Among all families in the October 1988 survey, 60 percent held favorable vehicle buying attitudes, just below the 62 percent average that was recorded during the prior four months. Favorable references to current vehicle prices continued to outnumber complaints about high prices, by the margin of 31 to 19 percent.

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The October 1988 survey included 501 completed interviews, conducted between October 3 and October 31, 1988.